APPENDIX

B

The Treatment of Federal Receipts and Expenditures in the National Income and Product Accounts

The fiscal transactions of the federal government are reported in two major sets of accounts that are conceptually quite different. The presentation generally discussed in the press and used by executive branch agencies and the Congress (and the one followed in the main text of this report) is the *Budget of the United States Government,* as reported by the Office of Management and Budget. It focuses on cash flows—revenues and outlays, or the collection of taxes and fees and the disbursement of cash for the various federal functions. The goals of the budget are to provide information that can assist lawmakers in their policy deliberations, to control federal activities, and to help the Department of the Treasury manage its cash balances and determine its borrowing needs.

The national income and product accounts (NIPAs) also report the federal government's transactions, but with different goals. The NIPAs, which are produced by the Bureau of Economic Analysis (BEA) at the Department of Commerce, are intended to provide a comprehensive measure of current production and related income generated by the U.S. economy.[1] A well-known measure of current production in the NIPAs is gross domestic product, or GDP. The accounts, which are used extensively in macroeconomic analysis, divide the economy into four major sectors—business, household, government, and the rest of the world (the foreign sector), each with its own set of accounts.[2] The federal sector, which is the focus of this appendix, is one component of the government sector (the state and local sector is the other component).[3] Because the goals of the NIPAs differ from those of the budget, the two accounting systems treat some government transactions very differently. On average, the differences cause receipts and expenditures in the NIPAs, as projected by the Congressional Budget Office (CBO), to exceed the corresponding budget totals by roughly 3.5 percent and 3 percent, respectively, for the 2006-2015 period.

Conceptual Differences Between the NIPAs' Federal Sector and the Federal Budget

The budget of the federal government is best understood as an information and management tool. It focuses mostly on cash flows, recording for each period the inflow of revenues and the outflow of spending.[4] The main period of interest in the budget accounts is the federal fiscal year, which runs from October 1 through September 30. There are a few exceptions to the general rule of recording transactions on a cash basis, but they are intended to improve the usefulness of the budget as a tool for making decisions. For example, when the federal gov-

1. The discussion of the NIPAs in this appendix generally refers to Table 3.2 in the accounts, "Federal Government Current Receipts and Expenditures," which most closely resembles the presentation in the budget. For other discussions of the NIPAs, see Bureau of Economic Analysis, "Federal Budget Estimates for Fiscal Year 2005," *Survey of Current Business* (March 2004); and *Budget of the United States Government, Fiscal Year 2005: Analytical Perspectives.*

2. Some accounts in the NIPAs, such as the domestic capital account (which shows saving and investment), focus on components of gross domestic product or income rather than on a specific sector and bring together relevant information from all four sectors.

3. More formally, BEA regards the federal government and the state and local governments as subsectors. The treatment of state and local governments' transactions in the NIPAs closely resembles that of the federal government's transactions.

4. Some budget accounts distinguish between on-budget and off-budget transactions and between federal funds and trust funds. Those distinctions do not affect the overall budget balance, have no economic implications, and do not appear in the NIPAs.

ernment makes direct loans or provides loan guarantees (as with student loans), tracking flows of cash would give a misleading view of costs; under what is known as credit reform, the budget records federal administrative expenses and the estimated subsidy costs at the time that the loans are made.

The federal sector of the NIPAs has none of the planning and management goals of the budget. Instead, it is focused on displaying how the federal government fits into a general framework that describes current production and income within specific periods and what happens to that production and income. The main periods of interest for the NIPAs are calendar years and calendar quarters, although approximate totals for fiscal years can be derived from the quarterly estimates.

From the point of view of the NIPAs, the federal government is both a producer and a consumer: its workforce produces government services, and its purchases consume some of the nation's production. In addition, the federal government affects the resources available to the private sector, through its taxes and transfers. The job of the NIPAs is to record all of those activities in a consistent manner.

The federal sector of the NIPAs tracks how much the government spends on consumption purchases, and it records the transfer of resources that occurs through taxes, payments to beneficiaries of federal programs, and federal interest payments. The federal sector's contribution to GDP is presented elsewhere in the NIPAs.[5]

Differences in Accounting for Major Transactions

The accounting differences between the NIPAs and the federal budget stem from the conceptual differences discussed above. In attempting to properly incorporate federal transactions into the framework used to determine GDP, the NIPAs reflect judgments about the best treatment of transactions such as government investment, sales and purchases of existing assets, federal credit, and federal activities that resemble those of businesses, along with transactions involving U.S. territories. In some cases, the appropriate treatment may be to exclude the transaction entirely from the NIPAs or to move it from the federal sector to another place in the NIPAs. In other cases, the appropriate treatment may involve recording as a receipt in the NIPAs something that the federal budget reports as an offsetting (negative) budget outlay, or adjusting the timing of a federal transaction to better match the timing of related production or income flows.[6]

The Measurement of National Saving

Several conventions in the NIPAs are intended to portray the federal government's contribution to the NIPA measure of national saving. Two major departures from the budget are the treatment of federal investment spending (for such things as ships, computers, and office buildings) and the treatment of federal employees' retirement programs.

In the federal budget, outlays for investment purchases are treated like other cash outlays and thus are subtracted from budget revenues to determine the size of the federal deficit or surplus. In the NIPAs, by contrast, federal investment is not counted as federal spending for the purpose of measuring net federal saving (current receipts minus current expenditures).[7] That is because new purchases of federal capital (investments) do not measure the current inputs from the existing stock of capital used to provide government services. To approximate the cost of those capital inputs, the NIPAs include in current fed-

5. As part of its comprehensive revisions to the NIPAs officially implemented in December 2003, BEA explicitly recognizes the services produced by the government as part of GDP and treats government purchases of goods and services (which are part of the business sector's contribution to GDP) as intermediate inputs to the production of government services. (Thus, the NIPAs now handle transactions in the government sector similarly to those in the business sector.) The changes shift the composition of GDP away from goods and toward services, because the government's purchases of goods are now classified as inputs to a new component of GDP, government services. Although that revised treatment changes the relative importance of different components of GDP as reported in Table 1.1.5 in the accounts ("Gross Domestic Product and Income"), it does not change the level of GDP or the transactions reported in the NIPAs' federal sector (Table 3.2 in the accounts).

6. The resulting differences between the numbers in the NIPAs and the budget are sometimes divided into three groups: coverage, netting, and timing. Although all three types of differences can affect total revenues or outlays, netting differences have no impact on the federal deficit or surplus because they affect revenues and outlays equally.

7. Federal investment is shown elsewhere in the NIPAs, along with private investment spending in the domestic capital account, which shows saving and investment (Table 5.1 in the accounts).

eral expenditures an estimate of the depreciation (consumption of fixed capital) of the stock of federal capital. The treatment is conceptually similar to that for the corporate business sector, which uses depreciation rather than investment purchases to compute net corporate saving (retained earnings). In the federal budget, depreciation is not tracked. In Table B-1, which provides a crosswalk between the budget and the NIPAs, that difference in coverage is shown under "Treatment of investment and depreciation."[8]

The transactions of federal employees' retirement programs are also handled very differently in the budget and the NIPAs. In the budget, federal employees' contributions for their retirement are recorded as revenues, whereas agencies' contributions on behalf of their employees (as well as interest payments from the Treasury to trust funds) have no overall budgetary effect because they are simply transfers of funds between two government accounts.[9] Benefit payments to retirees are recorded as outlays in the budget. By contrast, in the NIPAs, the aim is to make the measurement of saving by the federal government consistent with that by the private sector. Therefore, the NIPAs treat some of the transactions of federal retirement plans, except for the Railroad Retirement Fund, as part of the household sector.[10] The receipts from federal employers' and employees' retirement contributions (and the interest earned by retirement accounts) are considered part of the personal income of workers and thus are not recorded as federal transactions (receipts or negative expenditures). That arrangement parallels the treatment for the private sector.

On the outlay side, pension benefit payments to retirees are not recorded as federal expenditures in the NIPAs because they are treated as transfers from pension funds within the household sector. Some transactions, however, are treated as part of federal expenditures even though the corresponding receipts are recorded in the household sector. The government's payments for its workers' retirement are counted as federal expenditures (as part of employee compensation), as is the interest paid to federal retirement accounts. The different treatment of retirement contributions by federal employees shows up in Table B-1 under "Receipts"; the different treatment of contributions by federal employers, interest earnings, and benefit payments is shown under "Expenditures."

Capital Transfers and Exchanges of Existing Assets

The NIPAs measure current production and income rather than transactions involving existing assets. Thus, the NIPAs do not count capital transfers or asset exchanges as part of federal receipts or expenditures, although the budget generally does include those transactions. The NIPAs define as capital transfers, and thus exclude, estate and gift taxes (which are taxes on private capital transfers), investment subsidies to businesses, and investment grants to state and local governments (for highways, transit, air transportation, and water treatment plants).[11] Exchanges of existing assets include federal transactions for deposit insurance and sales and purchases of government assets (including assets that are not produced, such as land and the radio spectrum). In Table B-1, those differences between the NIPAs' federal sector and the budget accounts show up on the revenue side as estate and gift taxes and on the outlay side as capital transfers and lending and financial adjustments.

8. The estimates and presentation of the reconciliation between the budget and the NIPAs in Table B-1 are based on CBO's interpretation of the revised methodology for the accounts, as presented in Bureau of Economic Analysis, *Survey of Current Business* (June 2003), and on BEA's reconciliation of the Administration's budget for fiscal year 2005, published in the March 2004 *Survey of Current Business*.

9. In the budget, contributions by an agency for its employees' retirement are outlays for that agency and are offsetting receipts (negative outlays) for the trust funds. Thus, those intragovernmental transfers result in no net outlays or receipts for the total budget. That treatment is the same for Social Security and Medicare contributions by the federal government for its employees.

10. Social Security contributions and benefit payments for both private and government employees are kept in the federal sector as receipts and expenditures rather than moved to the household sector.

11. Another type of capital transfer recognized by BEA in the NIPAs is the annual lump-sum payment from the Treasury to the Uniformed Services Retiree Health Care Fund—a trust fund begun in fiscal year 2003 to pay for benefits received by Medicare-eligible retired members of the armed forces and their dependents. Those payments to the trust fund are for accrued but unfunded liabilities for benefits attributable to work performed before 2003. BEA now excludes those payments from federal expenditures because they are not related to current production. Thus, those payments have no impact on net federal saving. In the budget, those annual payments are recorded as outlays by the Treasury but as offsetting receipts (negative outlays) by the trust fund. Because those annual payments have no net impact on federal spending in either the NIPAs or the budget, there is no corresponding reconciliation item in Table B-1.

Table B-1.

Relationship of the Budget to the Federal Sector of the National Income and Product Accounts

(Billions of dollars)

	Actual 2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
						Receipts						
Revenues (Budget)[a]	1,880	2,057	2,212	2,357	2,508	2,662	2,806	3,062	3,303	3,474	3,657	3,847
Differences												
Coverage												
Contributions for government employees' retirement	-5	-4	-4	-4	-4	-4	-3	-3	-3	-3	-3	-2
Estate and gift taxes	-25	-24	-27	-25	-26	-27	-21	-19	-43	-46	-52	-58
Geographic adjustments	-4	-4	-4	-4	-4	-5	-5	-5	-5	-6	-6	-6
Universal Service Fund receipts	-7	-7	-7	-7	-7	-8	-8	-8	-8	-8	-8	-8
Subtotal, coverage	-40	-39	-42	-40	-42	-43	-37	-35	-59	-62	-68	-75
Timing shift of corporate estimated tax payments	1	5	0	0	0	0	0	0	0	0	0	0
Netting												
Medicare premiums	32	38	55	64	69	75	82	90	98	107	118	130
Deposit insurance premiums	*	*	1	1	1	1	2	2	2	2	2	2
Government contributions for OASDI and HI for employees	14	14	15	16	17	18	19	20	22	23	24	25
Income receipts on assets	16	16	17	16	18	18	18	18	19	19	19	20
Surpluses of government enterprises	5	6	6	5	5	5	6	6	6	6	6	6
Other	18	24	24	24	24	25	25	26	26	27	27	25
Subtotal, netting	85	99	117	127	135	143	151	161	172	183	197	209
Other adjustments	5	-13	-1	-5	4	-1	-2	-3	-6	1	1	*
Total Differences	**51**	**52**	**74**	**81**	**97**	**99**	**113**	**122**	**108**	**122**	**129**	**134**
Receipts in the NIPAs	1,930	2,109	2,286	2,438	2,605	2,761	2,919	3,184	3,411	3,596	3,787	3,981
						Expenditures						
Outlays (Budget)[a]	2,292	2,425	2,507	2,618	2,743	2,869	2,996	3,142	3,232	3,389	3,542	3,706
Differences												
Coverage												
Treatment of investment and depreciation	-15	-20	-22	-24	-26	-28	-31	-33	-36	-39	-42	-45
Contributions for government employees' retirement	35	37	35	34	35	36	37	38	39	41	42	43
Capital transfers	-45	-48	-51	-53	-54	-55	-56	-56	-57	-58	-59	-60
Lending and financial adjustments	17	13	14	21	21	11	12	11	12	13	13	14
Geographic adjustments	-13	-14	-14	-14	-15	-16	-16	-17	-18	-19	-20	-21
Universal Service Fund payments	-3	-6	-7	-7	-7	-7	-7	-7	-7	-7	-7	-8
Other	-41	-31	-22	-15	-16	-16	-13	-10	-10	-6	-5	-5
Subtotal, coverage	-64	-69	-66	-57	-62	-75	-74	-53	-77	-76	-78	-82
Timing adjustments	2	-13	6	9	0	0	0	-16	16	0	0	0

Continued

Table B-1.

Continued

(Billions of dollars)

	Actual 2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Differences (continued)												
Netting												
Medicare premiums	32	38	55	64	69	75	82	90	98	107	118	130
Deposit insurance premiums	*	*	1	1	1	1	2	2	2	2	2	2
Government contributions for OASDI and HI for employees	14	14	15	16	17	18	19	21	22	23	24	26
Income receipts on assets	16	16	17	16	18	18	18	18	19	19	19	20
Surpluses of government enterprises	5	6	6	5	5	5	6	6	6	6	6	6
Other	18	24	24	24	24	25	25	26	26	27	27	25
Subtotal, netting	85	99	117	127	135	143	151	161	173	184	197	209
Total Differences	**23**	**18**	**58**	**80**	**73**	**68**	**78**	**93**	**111**	**108**	**119**	**127**
Expenditures in the NIPAs	2,315	2,443	2,565	2,698	2,816	2,937	3,073	3,212	3,343	3,497	3,661	3,833
						Net Federal Government Saving						
Budget Deficit (-) or Surplus[a]	-412	-368	-295	-261	-235	-207	-189	-80	71	85	115	141
Differences												
Coverage												
Treatment of investment and depreciation	15	20	22	24	26	28	31	33	36	39	42	45
Contributions for government employees' retirement	-40	-41	-39	-38	-39	-39	-40	-41	-42	-44	-44	-45
Estate and gift taxes	-25	-24	-27	-25	-26	-27	-21	-19	-43	-46	-52	-58
Capital transfers	45	48	51	53	54	55	56	56	57	58	59	60
Lending and financial adjustments	-17	-13	-14	-21	-21	-11	-12	-11	-12	-13	-13	-14
Geographic adjustments	9	10	10	10	10	11	11	12	12	13	14	15
Universal Service Fund	-3	-1	-1	-1	-1	-1	-1	-1	-1	-1	-1	-1
Other	41	31	22	15	16	16	13	10	10	6	5	5
Subtotal, coverage	24	30	23	16	21	32	37	40	18	14	10	7
Timing adjustments	-1	17	-6	-9	0	0	0	16	-16	0	0	0
Other adjustments	5	-13	-1	-5	4	-1	-2	-3	-6	1	1	*
Total Differences	**28**	**34**	**16**	**1**	**25**	**31**	**35**	**53**	**-3**	**15**	**11**	**7**
Net Federal Government Saving	-384	-334	-278	-260	-211	-177	-154	-28	68	100	125	148

Source: Congressional Budget Office.

Note: * = between -$500 million and $500 million; OASDI = Old-Age, Survivors, and Disability Insurance; HI = Hospital Insurance.

a. Includes Social Security and the Postal Service.

Credit Programs

The budget is not affected by all of the transactions associated with federal loans and loan guarantees—just by federal administrative costs and the estimated cost of subsidies. Loan disbursements, loan repayments, and interest are reported in what are termed financing accounts, which have no effect on revenues or outlays.

Like the budget, the NIPAs record administrative costs and generally exclude loan disbursements and repayments and other cash flows considered exchanges of existing assets or financial and lending transactions unrelated to current production. Unlike the budget, however, the NIPAs do not record subsidy costs. Also, unlike the budget, the NIPAs include the interest receipts from credit programs (as part of federal receipts). Those differences in the treatment of credit programs are recorded in two places. Under "Expenditures" in Table B-1, the lending and financial adjustments show the differences in handling the loan subsidies, and under "Receipts," the difference in treating loan interest is captured as income receipts on assets.

Geographic Coverage

The NIPAs exclude all government transactions with Puerto Rico and the U.S. territories, whose current production is, by the NIPAs' definition, not part of U.S. GDP. Because federal transfers dominate those transactions, their exclusion tends to increase the NIPAs' depiction of net federal saving in comparison with the budget's measure of saving—the federal deficit or surplus. That difference in coverage is shown as geographic adjustments in Table B-1.

Universal Service Fund

The budget, but not the NIPAs' federal sector, records the business activity of the Universal Service Fund, which provides resources to promote access to telecommunications. The fund receives federally required payments from providers of interstate and international telecommunications service and disburses those funds to local providers that serve high-cost areas, low-income households, libraries, and schools, as well as to rural health care providers. The fund is administered by an independent nonprofit corporation (the Universal Service Administrative Company), which is regulated by the Federal Communications Commission.

Because of the limited role played by the government, the fund's receipts and payments are classified in the NIPAs as intracorporate transfers (from one business to another) and are not recorded in the federal sector of the accounts. The fund's revenues and outlays appear in the federal budget but have little net impact on the deficit or surplus. The difference in treatment of the Universal Service Fund is so labeled in Table B-1.

Interest Receipts

In the NIPAs, federal interest receipts are grouped with other types of federal receipts (in the category called "income receipts on assets") rather than netted against federal interest payments, as they are in the federal budget.[12] BEA's treatment is consistent with international accounting practices, under which interest receipts and payments are reported separately. That difference between the NIPAs and the federal budget in their treatment of interest receipts raises the NIPAs' measure of government receipts relative to federal budget revenues and increases the NIPAs' measure of federal spending relative to budget outlays. However, because the difference in treatment affects receipts and expenditures in the NIPAs by exactly the same amount, it has no impact on the NIPAs' measurement of net government saving.

Surpluses of Government Enterprises

In the NIPAs, the surpluses of government enterprises, such as the Postal Service, are shown on a separate line under federal government current receipts. That treatment is in line with international accounting standards, which generally advocate reporting spending on a gross rather than a net basis. By contrast, surpluses of government enterprises are treated as offsetting receipts (negative outlays) in the federal budget.

Military Sales and Assistance in Kind

The NIPAs attempt to identify contributions to GDP by sector. Therefore, they do not classify as part of federal consumption military purchases of equipment and services that are intended for sale or as gifts to foreign governments. Instead, those transactions are part of net exports in the NIPAs' foreign transactions account (Table 4.1 in the accounts). In the case of gifts, the transactions are also recorded in the federal sector of the NIPAs as part of transfers to the rest of the world—a classification that parallels their treatment as outlays in the federal budget. By contrast with their treatment in the NIPAs, military

12. About half of interest receipts, mainly interest from penalties on late tax payments, are recorded as revenues in the federal budget.

sales to foreign governments are recorded in the federal budget as outlays, while the proceeds from those sales are recorded as offsetting receipts (negative outlays).

Timing Differences

The NIPAs attempt to measure income flows as much as possible when income is earned (on an accrual basis) rather than when income is received (on a cash basis).[13] That approach makes sense in an integrated system of accounts that is tracking both production and income, because, on an accrual basis, the value of what is produced in a period should (measurement problems aside) match the total income generated. For example, BEA attributes corporate tax payments to the year in which the liabilities are incurred rather than to the time when the payments are actually made. However, the NIPAs are not entirely consistent in that respect: personal tax payments are counted as they are made and are not attributed back to the year in which the liabilities were incurred. Currently, BEA is engaged in research to develop methods for preparing accrual-based estimates of personal tax payments.

Because the budget is mostly on a cash basis and the NIPAs' federal sector is largely on an accrual basis, differences exist in a number of areas in the timing for recording transactions.

Corporate Taxes. Tax legislation sometimes temporarily shifts the timing of corporate tax payments (usually from the end of one fiscal year to the beginning of the next one). The NIPAs exclude such timing shifts, which are not consistent with accrual accounting. The timing adjustments for the effects of the Economic Growth and Tax Relief Reconciliation Act of 2001 and the Jobs and Growth Tax Relief Reconciliation Act of 2003 are shown as the timing shift of corporate estimated tax payments in Table B-1.

Although corporations make estimated tax payments throughout the year, any shortfalls (or overpayments) are corrected in the form of final payments (or refunds) in subsequent years. The NIPAs shift those final payments back to the year in which the corporate profits that gave rise to the tax liabilities actually were generated, whereas the budget records them on a cash basis. The results of that difference are difficult to identify for recent history and thus appear under "Other adjustments" under "Receipts" in Table B-1.[14]

Personal Taxes. Although personal taxes are not recorded on an accrual basis in the NIPAs, BEA nevertheless attempts to avoid large, distorting upward or downward spikes in personal disposable income due to timing quirks. Such quirks occur, for example, in April of each year, when most final settlements for the previous year's personal taxes are paid. In the NIPAs, therefore, those settlements are evenly spread over the four quarters of the calendar year in which they are paid. (As with accrual accounting, that treatment avoids spikes. Unlike accrual treatment, however, it does not move payments back to the year in which the liabilities were incurred.) The smoothing can alter the relationship of the NIPAs and the budget accounts for fiscal years because it shifts some receipts into the last quarter of the calendar year and thus into the following fiscal year. Those adjustments are difficult to identify for recent history and thus are not shown separately in Table B-1; they appear in the "Other adjustments" category under "Receipts."

Transfers and Military Compensation. Timing adjustments are needed on the spending side of the NIPAs to align military compensation and government transfer payments—for example, veterans' benefits, Supplemental Security Income (SSI) payments, and Medicare's payments to providers—with income that is reported on an accrual basis in the NIPAs. Misalignments can occur because of delays in payments or quirks in the calendar.

For example, although SSI payments are usually made on the first day of each month, the checks are sometimes mailed a day or more in advance. That situation typically occurs when the first of the month falls on a weekend or holiday. If it occurs for the October payments, the payments will be pushed into the previous fiscal year in the budget. In such cases, the NIPAs introduce a timing adjustment that effectively puts the payments back on the first day of the month. Hence, the NIPAs' adjustment al-

13. See United Nations, *System of National Accounts* (1993), paragraph 3.19, which emphasizes reporting transactions on an accrual basis. Many of the conceptual changes to the NIPAs over time have been based on the guidelines enumerated in that U.N. document. See also Bureau of Economic Analysis, "The NIPAs and the System of National Accounts," *Survey of Current Business* (December 2004), pp. 17-32.

14. "Other adjustments" include timing differences not shown elsewhere in Table B-1, plus discrepancies between figures in the NIPAs and the budget that may diminish when BEA makes subsequent revisions.

ways ensures that there are exactly 12 monthly SSI payments in a year, whereas in the budget, there can be 11 in some years and 13 in others.

For military compensation, which is paid at the beginning and the middle of each month, the adjustment in the NIPAs always ensures 24 payments in a year. In the budget, by contrast, there can be 23 payments in some years and 25 in others. The timing adjustments for expenditures in Table B-1 reflect that regularizing for transfers and for military pay.

By contrast with the federal budget, the NIPAs record Medicare payments on an accrual rather than on a cash basis. That treatment better shows the link between the underlying economic activity (the medical services provided) and the associated federal transactions (payment for those services), which can be several months apart. That timing adjustment, however, has only a small effect on the NIPAs' measure of net federal saving.

Business Activities

The NIPAs and the federal budget both treat certain revenues as offsetting receipts (negative outlays) when they result from voluntary transactions with the public that resemble business activities, such as the proceeds from the sale of government publications. However, the NIPAs generally have a stricter view of what resembles a business transaction. In particular, Medicare premiums, deposit insurance premiums, rents, royalties, and regulatory or inspection fees are deemed equivalent to business transactions in the budget but not in the NIPAs. Consequently, those transactions (negative outlays in the budget) are treated in the NIPAs as government receipts (contributions for government social insurance and current transfers from business—fines and fees). Those differences are recorded under "Netting" in Table B-1. Because they affect total current receipts and total current expenditures by exactly the same amounts, they have no effect on the NIPAs' measure of federal saving.

Presentation of the Federal Government's Receipts and Expenditures in the NIPAs

Like the budget, the federal sector of the NIPAs classifies receipts by type, but the categories differ (see Table B-2). The NIPAs' classifications help to determine measures of such things as disposable income and corporate profits after taxes. There are five major categories of current receipts. The largest one, current tax receipts, includes taxes on personal income, taxes on corporate income, taxes on production and imports, and taxes from the rest of the world. The next largest category is contributions for government social insurance, which consists of Social Security taxes, Medicare taxes and premiums, and unemployment insurance taxes. The remaining categories are current transfer receipts (fines and fees), income receipts on assets (interest, rents, and royalties), and current surpluses of government enterprises (such as the Postal Service). As discussed above, those surpluses, as well as interest and some other receipts, previously were recorded on the expenditure side of the NIPAs' federal sector as offsetting (negative) expenditures.

In the NIPAs, the government's expenditures are classified according to their purpose. The major groups, which are much fewer than those in the federal budget, are consumption expenditures, or purchases of goods and services (broken out for defense and nondefense purchases); transfer payments (to individuals, governments, and the rest of the world); interest payments; and subsidies to businesses and to government enterprises.

Defense and nondefense consumption of goods and services consists of purchases made by the government for its immediate use in production. (The largest portion of such consumption is the compensation of military and civilian federal employees.) Among the government's consumption expenditures, the consumption of fixed capital—depreciation—represents a partial measure of the services that the government receives from its stock of fixed assets, such as buildings or equipment.

Table B-2.

Projections of Baseline Receipts and Expenditures as Measured by the National Income and Product Accounts

(Billions of dollars)

	Actual 2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
						Receipts						
Current Tax Receipts												
Personal current taxes	779	879	965	1,059	1,150	1,238	1,331	1,525	1,676	1,783	1,890	2,003
Taxes on corporate income	209	225	247	245	266	276	280	287	296	307	319	331
Taxes on production and imports	89	97	102	106	110	113	117	122	126	129	134	135
Taxes from the rest of the world	8	9	10	11	12	13	14	16	18	19	20	21
Subtotal	1,086	1,209	1,324	1,421	1,538	1,640	1,742	1,950	2,115	2,238	2,363	2,490
Contributions for Government Social Insurance[a]	790	840	902	955	1,003	1,054	1,109	1,164	1,221	1,281	1,343	1,408
Current Transfer Receipts	26	28	30	30	31	33	35	36	38	40	42	44
Income Receipts on Assets	23	25	26	26	27	28	28	29	30	30	32	33
Current Surpluses of Government Enterprises	5	6	6	5	5	5	6	6	6	6	6	6
Current Receipts	**1,930**	**2,109**	**2,286**	**2,438**	**2,605**	**2,761**	**2,919**	**3,184**	**3,411**	**3,596**	**3,787**	**3,981**
						Expenditures						
Consumption Expenditures												
Defense												
Consumption	406	411	392	387	395	404	414	424	434	445	456	467
Consumption of fixed capital	63	64	64	65	66	66	67	68	69	69	70	71
Nondefense												
Consumption	201	219	228	236	241	247	253	259	265	272	280	287
Consumption of fixed capital	24	24	25	25	25	26	26	27	27	27	28	28
Subtotal	694	719	709	713	728	743	760	777	795	814	833	853
Current Transfer Payments												
Government social benefits												
To persons	986	1,041	1,129	1,206	1,266	1,333	1,410	1,492	1,568	1,671	1,779	1,896
To the rest of the world	3	3	3	3	3	4	4	4	4	4	5	5
Subtotal	989	1044	1,132	1,209	1,269	1,337	1,414	1,496	1,573	1,675	1,784	1,901
Other transfer payments												
Grants-in-aid to state and local governments	349	363	372	387	405	425	449	475	502	532	565	600
To the rest of the world	25	27	27	25	24	24	24	24	24	24	25	26
Subtotal	374	390	399	412	429	449	472	498	526	557	590	625
Interest Payments	217	236	274	315	343	364	382	396	403	405	408	407
Subsidies	40	54	50	49	46	45	45	45	45	45	46	46
Current Expenditures	**2,315**	**2,443**	**2,565**	**2,698**	**2,816**	**2,937**	**3,073**	**3,212**	**3,343**	**3,497**	**3,661**	**3,833**
						Net Federal Government Saving						
Net Federal Government Saving	**-384**	**-334**	**-278**	**-260**	**-211**	**-177**	**-154**	**-28**	**68**	**100**	**125**	**148**

Source: Congressional Budget Office.

a. Includes Social Security taxes, Medicare taxes and premiums, and unemployment insurance taxes.

Transfer payments (cash payments made directly to individuals and the rest of the world as well as grants to state and local governments or foreign nations) constitute another grouping. Most of the transfers to individuals are for social benefits.[15] Grants-in-aid are payments that the federal government makes to state or local governments, which generally use them for transfers (such as benefits provided by the Medicaid program) and consumption (such as the hiring of additional police officers). Grants-in-aid to foreigners include federal purchases of military equipment for delivery to foreign governments.

The NIPAs' category for federal interest payments shows only payments and thus differs from the budget, which contains a category labeled "net interest." In the NIPAs, federal interest receipts are classified with other federal receipts.

15. In its July 2004 data revisions, BEA published a revised estimate of government social benefits to individuals for 2003 that was significantly below its previously reported estimate, including a downward revision to its estimate of Medicare benefits. See "Annual Revision of the National Income and Product Accounts: Annual Estimates, 2001-2003, and Quarterly Estimates, 2001: 2004-I," *Survey of Current Business* (August 2004). For 2004, CBO estimates the effect of the 2003 revisions to be about $17 billion, nearly half of it in Medicare benefits. Although CBO considers recent budget data more consistent with the higher estimates shown in the NIPAs before the July revisions, it nevertheless has adopted BEA's estimate for 2004 in Tables B-1 and B-2 presented here. Over the next few years, CBO's forecast gradually removes its estimate of the effects of BEA's revisions to the level of social benefits other than Medicare, phasing it out fully by 2007. However, on the basis of available information about BEA's methodology for its Medicare estimates, CBO is tentatively extending its estimate of the downward adjustment to Medicare benefits throughout the 2006-2015 projection period.

The NIPAs' category labeled "subsidies" primarily consists of grants paid by the federal government to businesses, including state and local government enterprises such as public housing authorities. Federal housing and agricultural assistance have dominated that category.

Net federal government saving in the NIPAs is the difference between the current receipts and the current expenditures of the federal sector. It is a component of net national saving (which also includes net saving by the state and local government sector, personal saving, and corporate retained earnings) and thus a partial measure of how much of the nation's income earned from current production is not consumed in the current period. Net federal saving (or dissaving) is not a good indicator of federal borrowing requirements because, unlike the budget deficit or surplus, it is not a measure of cash flows.[16]

16. As an addendum in NIPA Table 3.2, BEA publishes a measure labeled "net lending or net borrowing," which is closer to a cash or financial measure in several ways. Like the budget, it includes investment purchases as expenditures because those purchases must be financed from current receipts or from federal borrowing. At the same time, it excludes consumption of fixed capital (depreciation) because those accounting charges are not a drain on current financial resources. In addition, it includes receipts from the sale of assets that are not produced, as well as capital transfer receipts (for example, estate and gift taxes) and capital transfer payments (for example, investment grants to state and local governments), which are not part of current receipts or expenditures in the NIPAs but do affect cash flows. Despite those adjustments, net federal lending or borrowing in the NIPAs differs from the budget deficit or surplus because of all of the other differences in timing and coverage that distinguish the NIPAs from the budget. BEA presents those differences in NIPA Table 3.18, which is similar to Table B-1 presented here.